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AGENDA ITEM # 1945

WATER/ICRJ/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4385
April 3, 2003**

R E S O L U T I O N

RESOLUTION W-4385. POINT ARENA WATER WORKS, INC. (PAWW). ORDER DENYING REQUEST TO ADJUST THE SURCHARGE RATES AUTHORIZED IN RESOLUTION NO. (RES.) W-4233 DUE TO CHANGES IN THE NUMBER OF CUSTOMERS BY METER SIZE.

By Advice Letter No. 44 filed on October 10, 2002.

SUMMARY

This Resolution denies the authority requested by PAWW, in Advice Letter (AL) No. 44.

Pursuant to General Order No. 96-A Section VI and Ordering Paragraph 8 of Res. W-4233, PAWW seeks to adjust the surcharge rates previously authorized in Res. W-4233 to correct and reflect changes from June 2000 to January 2002 in the number of customers by meter size. The proposed adjustment will increase surcharge rates by 25%, resulting into an increase in the monthly bill of a 5/8" metered customer by approximately 0.52%.

Notice of AL No. 44 was made by publication in the Commission's Daily Calendar of October 18, 2002. The proposed surcharge adjustment (an increase attendant to the current number of customers by meter size) appeared in a local newspaper of general circulation in South Mendocino County and Northern Sonoma County on November 15, 2002. A letter from the City of Point Arena (City) was received objecting to the surcharge rate increase.

On February 7, 2003, the draft resolution of the Water Division in this matter was noticed to the parties in accordance with PU Code § 311(g). The City filed comments on February 19, 2003. No reply comments were received.

BACKGROUND

PAWW, a Class D water utility is subject to the jurisdiction of this Commission. PAWW provides service to the City of Point Arena and vicinity, and the Whiskey Shoals Subdivision Unit Nos. 1,2, and 3, in Mendocino County.

Res. W-4233 dated November 21, 2000, authorized PAWW to:

1. Borrow a total of \$37,458 to finance the construction of a building to house an auxiliary generator and to pay for the cost and installation of a redwood tank.
2. Implement a surcharge to repay the loan principal and interest.
3. Report to the Water Division on or before July 31, 2001, and yearly thereafter, for as long as the surcharge is imposed, changes in the number of connections by type of customer and by size of connection, the amount of surcharge collected, the amount of repayments made, the outstanding balance of the loan, and the overages and shortages in the utility's balancing account. To indicate in said report, if an advice letter will be forthcoming to reflect changes in the rate surcharges.

Res. 4233 also permitted PAWW to charge Point Arena Associates (low income housing) and Wharf Masters Inn (each with 6-inch meter service to meet fire protection requirements) the 4-inch meter surcharge because a 4-inch meter would have been adequate to provide for domestic water consumption at each location.

PAWW's initial report on the changes in the number of connections by type of customer and by meter size is reflected in AL 44.

The filing states that in the original computation of the surcharge, 152 customers with 5/8-inch meter size were inadvertently placed under the 3/4-inch category. These customers were charged the 3/4-inch surcharge of \$2.40 instead of \$1.60 for eleven months¹. On January 2002, Point Arena found the error and started billing the customers the 5/8-inch surcharge of \$1.60.

PAWW's present rates and proposed surcharge rates (based on the correct customer distribution) follows:

Quantity Rates: All water, per 100 cu. ft. \$4.96

Service Charge:

	<u>Present Rate</u>	<u>Present</u>	<u>Proposed</u>		
<u>Size of Meter</u>	<u>Per Meter Per Month</u>	<u>Surcharge Per Month</u>	<u>Surcharge Per Month</u>	<u>% Increase</u>	<u>% Inc.</u>
5/8 x 3/4" meter	\$ 42.93	\$ 1.60	\$ 2.00	\$ 0.40	25.0%
3/4" meter	54.18	2.40	3.00	0.60	25.0%
1" meter	67.69	4.00	5.01	1.01	25.0%
1 1/2" meter	94.80	8.00	10.01	2.01	25.0%
2" meter	126.33	12.80	16.02	3.22	25.0%
3" meter	214.33	23.95	30.03	6.08	25.0%
4" meter	291.52	39.90	50.05	10.15	25.0%
6" meter	484.47	79.80	100.11	20.31	25.0%

The re-calculated surcharge schedule will generate a monthly surcharge collection of \$558.00 to cover the monthly loan payment. The monthly bill for a typical 5/8" metered customer using 630 cubic feet of water would increase from \$76.84 to \$77.24 or 0.52%. Approximately 86% of PAWW's customer base have 5/8" meters.

¹ Resulting in an overcharge of \$0.80 per month or \$8.80 for eleven months per customer.

NOTICE AND PROTESTS

On November 15, 2002, a notice of the proposed increase in surcharge rates expressed in dollar and percentage terms was published in the Independent Coast Observer, a newspaper printed and published every week in the town of Gualala and circulated in South Mendocino County and Northern Sonoma County.

The Water Division received a letter from the City dated November 27, 2002 stating its objection to the surcharge adjustment. The City is a customer of Point Arena.

Specifically, the City states that newspaper publication of the surcharge adjustment is not sufficient; there should be some form of compensation to customers billed with the incorrect surcharge; comments questioning the project funded by the surcharge; and PAWW's inability to remit the surcharge funds to the lender.

On December 6, 2002, the Water Division received by facsimile PAWW's response to the City.

PAWW states that: (1) the utility followed the Water Division's staff instruction on noticing the public; (2) the matter pertaining to rectifying customers charged with the $\frac{3}{4}$ " surcharge for eleven months was resolved in Resolution (Res.) W-4356 dated October 24, 2002; (3) Whiskey Shoals has been in the utility's service area since 1971; and (4) the surcharge funds have been used to pay other expenses.

On February 19, 2003, the City filed comments on the draft resolution distributed February 7, 2003. Among other things reiterated, is the misuse of surcharge funds.

DISCUSSION

Notice:

PAWW was misinformed. Only offset advice letters may be noticed in a newspaper of general circulation when the increase is less than 10%. All other rate increases require the 30-day notice to individual customers per PU Code § 491. Since we are denying AL 44, the issue of notice is moot.

Surcharge:

PAWW's surcharge collection for the year 2001 amounted to \$6,725.35 and \$5,121.26 for the year 2002. The total amount paid towards the loan as of February 1, 2003 is \$358.00.

Res. W-4233 authorized a total borrowing of \$37,458 and required PAWW to establish a balancing account to be credited with revenue collected through the surcharge and the accrued interest on the revenue. The balancing account is to be charged with payments of principal and interest on the loan, and the surcharge funds are not to be commingled with other utility funds.

Although we recognize PAWW's requirements in AL 44 to correct the surcharge rate schedule based on the correct number of customers to support the debt authorized by Res. W-4233, the matter of the use of surcharge funds is of greater concern at this time.

Draft resolution W-4368 was placed in Agenda 3109 of the Commission meeting of March 13, 2003, and was subsequently withdrawn to further review remedial options to ensure proper use of surcharge funds and the reimbursement of the surcharge balancing account.

We will therefore deny the authority requested in AL 44 without prejudice. It is PAWW's responsibility to pay the loan and to keep its balancing account in order.

PAWW should also be responsible for expenses that may arise from interest and penalties on late payments that may be assessed by the lender. Ratepayers should be held indifferent in the matter of interest and

penalties on late payments. It is PAWW's obligation to repay the loan as guaranteed by the surcharge.

We will also require PAWW to refund in the form of a credit against the utility's service charge revenue, the amount of \$0.80 per month for a period of eleven months to the 152 of its 5/8-inch metered customers who were previously billed incorrectly.

We note herein that pursuant to D.78384 dated March 2, 1971, the Whiskey Shoals system has been part of PAWW's certificated service areas and as such falls under the jurisdiction of this Commission. The City of Point Arena and Whiskey Shoals customers pay the same rates for water service and therefore bear the cost of providing service and system improvements service-area wide, whether or not the systems are contiguous.

In order to validate the surcharge amounts collected from ratepayers and to establish the accuracy of PAWW's entries in its balancing account, the Division's Audit and Compliance Branch (ACB) will be directed in this resolution to conduct an audit of the utility's books pertaining to the loan and surcharge authority granted in Res. W-4233. Thereafter, appropriate corrective measures will be presented for consideration by this Commission.

Once the loan account is updated and the balancing account reimbursed, PAWW may request to adjust the surcharge rates authorized in Res. W-4233 based on the then customer distribution.

FINDINGS

1. On October 10, 2002, PAWW filed AL No. 44 requesting a surcharge adjustment.
2. PAWW represents that in the original computation of the surcharge, 152 customers with 5/8-inch meter size were erroneously placed under the 3/4-inch category.
3. One hundred fifty two customers were charged the 3/4-inch surcharge for eleven months.

4. On November 15, 2002, a notice of the proposed increase in surcharge rates was published in the Independent Coast Observer.
5. On November 27, 2002, a letter from the City was received objecting to the surcharge adjustment and related matters.
6. On December 6, 2002, PAWW responded to the letter of the City.
7. On February 7, 2003, this draft resolution W-4368 was noticed to the parties in accordance with PU Code 311(g).
8. On February 19, 2003, the City submitted its comments.
9. Draft resolution W-4368 was placed in Agenda 3109 of the Commission meeting of March 13, 2003, and was withdrawn to further review options and remedial actions pertaining to the improper use of surcharge funds and the reimbursement of the surcharge balancing account.
10. PAWW should be required to refund to its 5/8-inch metered customers by providing a credit of \$0.80 per month against service charge revenue for eleven months commencing with the first billing after the effective date of this resolution.
11. PAWW's Whiskey Shoals water system has been part of its certificated service area as authorized in D.78384.
12. PAWW surcharge collection amounted to \$6,725.35 for the year 2001 and \$5,121.26 for the year 2002.
13. The surcharge collection has been used by PAWW to pay current operating expenses.
14. As of February 1, 2003, PAWW has only paid \$358.00 towards the loan.
15. PAWW should bear all expenses that may arise from interest and penalties on late payments that may be assessed by the lender.

16. PAWW's books should be reviewed by ACB and the results of the audit should be submitted to the Director of the Water Division. Corrective measures would be presented to this Commission.

THEREFORE, IT IS ORDERED THAT:

1. The authority for surcharge adjustment requested by Point Arena Water Works, Inc. in Advice Letter No. 44 is denied without prejudice.
2. Advice Letter No. 44 shall not be reused.
3. Point Arena Water Works, Inc. shall open a separate bank account and deposit all rate surcharges authorized by Resolution W-4233 dated November 21, 2000 within thirty days of collection.
4. Point Arena Water Works, Inc. shall continue using a balancing account to be credited with revenue collected through the surcharge and the accrued interest on the revenue. The balancing account shall be charged with payments of principal and interest on the loan.
5. Point Arena Water Works, Inc. shall provide the Director of the Water Division a quarterly summary detailing the amounts of receipts and disbursements in the surcharge bank account.
6. Point Arena Water Works, Inc. shall maintain, and within thirty days from request provide the Director of the Water Division any documents, bank statements, and information related to this proceeding.
7. Point Arena Water Works, Inc. shall provide overcharge credits against its service charge revenues to its 5/8-inch metered customers in installments of \$0.80 per month for eleven months commencing with the first billing after the effective date of this resolution.
8. The Division's Audit and Compliance Branch will conduct an audit of Point Arena Water Works, Inc.'s books and the special bank account to ensure that all activities are in accordance with Commission's rules and regulations.

9. After the audit is complete, the Water Division shall provide a resolution for Commission consideration correcting past errors and disposing of any issues discovered with respect to the loan and surcharge.
10. In all other respects, Resolution W-4233 remains in full force and effect.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 3, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director